

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Aghazarian, et. al Analyst: Darrine Distefano Bill Number: AB 1035
Related Bills: See Legislative History Telephone: 845-6458 Introduced Date: 02-20-2003
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Agency Designate Enterprise Zone Encompassing Ceres, Modesto, & Turlock

SUMMARY

This bill would authorize the Technology, Trade, and Commerce Agency (TTCA) to designate an area encompassing a specific group of cities as an enterprise zone (EZ).

PURPOSE OF THE BILL

According to the author's staff, the purpose of this bill is to assist economically disadvantaged areas within the cities of Ceres, Modesto, and Turlock by attracting more businesses and generating more jobs for the citizens in the area.

EFFECTIVE/OPERATIVE DATE

This bill would effective and operative beginning January 1, 2004.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Existing federal law provides special tax incentives for empowerment zones and enterprise communities to provide economic revitalization of distressed urban and rural areas.

Qualified zone businesses operating in federal empowerment zones and federal enterprise communities are eligible to receive two tax incentives: (1) tax-exempt private activity bonds to finance certain facilities; and (2) the "brownfields" tax incentive, which allows taxpayers to expense (rather than capitalize) certain environmental remediation expenditures. Qualified empowerment zone businesses are allowed an additional \$20,000 depreciation expense deduction.

Under the Government Code, existing state law allows the governing body of a city or county to apply for designation as an EZ. Using specified criteria, TTCA designates EZs from the applications received from the governing bodies. EZs are designated for 15 years (except EZs designated before 1990 and that meet certain criteria may be extended to 20 years), and TTCA has designated 39 of the 42 EZs authorized under existing law. When an EZ expires or is dedesignated as a result of a failing audit by TTCA, TTCA is authorized to designate another in its place to maintain a total of 42 EZs.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Department Director
Gerald H. Goldberg

Date
04/01/03

Under the Revenue and Taxation Code (R&TC), existing state law provides special tax incentives for taxpayers conducting business activities within an EZ. These incentives include a sales or use tax credit, hiring credit, business expense deduction, special net operating loss treatment, and net interest deduction. In addition, a wage credit may be claimed by specified employees of businesses operating in an EZ.

THIS BILL

This bill would, upon request from the appropriate governing body, designate a geographic area that includes the cities of Ceres, Modesto, and Turlock as an EZ. This bill specifically provides that this designation would not be interpreted to increase the number of EZ's authorized to be designated.

The EZ special income tax incentives would be available to taxpayers that conduct business activities within the new EZ.

This bill states the intent of the Legislature is to assist the cities of Ceres, Modesto, and Turlock due to the unique circumstances of the need for sustained employment and business development in these areas.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

AB 11 (Garcia and Vargas, 2003/2004) would require TTCA to designate the City of Brawley as an EZ, subject to approval by the city council, and would apply the EZ special tax incentives provisions of the R&TC for taxpayers that conduct business activities within the EZ. This bill is currently in the Committee on Jobs, Economic Development, and the Economy.

AB 499 (Cogdill, 2001/2002) would have required the TTCA to designate a new EZ and targeted tax areas within a county within a specified group of counties. This bill was amended June 25, 2002, and later chaptered (Stats. 2002, Ch. 746) to instead require General Services to transfer title of a state facility to the City of Norco.

AB 523 (Vargas, 2001/2002) would have required TTCA to designate an EZ within Imperial County (that included the cities of Brawley and Calexico) that was previously designated as a Manufacturing Enhancement Area (MEA), upon the request of the county's board of supervisors. This bill was amended September 1, 2002, to add urgency language to the existing Welfare and Institutions Code. The Governor vetoed this bill.

AB 46 (Washington, Stat. 2001, Ch. 587) expanded the maximum number of EZs from 39 to 42.

OTHER STATES' INFORMATION

Currently, 29 other states have economic development areas that provide similar tax related incentives to those provided in California's economic development areas. The number of economic development areas varies from state to state. For example, California currently has 49 economic development areas (that include EZs (39), Manufacturing Enhancement Areas (2), Local Agency Military Base Recovery Areas (7), and Targeted Tax Area (1)), New York has 58, Florida 32, Illinois 93, and Michigan 23.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

A revenue analysis of this bill cannot be determined due to uncertainty of the specific geographic areas that would be targeted within the cities of Ceres, Modesto, and Turlock. Most EZs are designated to assist a specific geographic area within a city that is economically depressed. Since this bill is designating an area encompassing three entire cities, the rule of thumb for revenue losses on EZs (\$3 million per EZ) cannot be applied because there are most likely areas within these cities that do not have low unemployment, low-income families, or suffer from some type of economic decline. Applying the rule of thumb to this bill under incorrect assumptions would provide an erroneous revenue estimate.

LEGISLATIVE STAFF CONTACT

Darrine Distefano
Franchise Tax Board
845-6458
Darrine_Distefano@ftb.ca.gov

Brian Putler
Franchise Tax Board
845-6333
Brian.Putler@ftb.ca.gov